

REPORT OF EXAMINATION

**WASHINGTON STATE
HEALTH CARE AUTHORITY**

Lacey, Washington

As of June 30, 2000



**Participating States:
Washington**

**Washington State
Health Care Authority**

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Washington State Health Care Authority of Lacey, Washington. This report shows the financial condition and related corporate matters as of June 30, 2000.

PATRICK H. McNAUGHTON
Chief Examiner

Date

**Washington State
Health Care Authority**

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**Washington State
Health Care Authority**

Lacey, Washington
January 18, 2002

The Honorable Mike Kreidler, Commissioner
Washington Department of Insurance
Insurance Building
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of RCW's 41.05.140(5) and 48.03.010, an examination was made of the affairs and financial records of

**WASHINGTON STATE
HEALTH CARE AUTHORITY**

of

Lacey, Washington

hereinafter referred to as "HCA" or the "Agency," at its home office located at 676 Woodland Square Loop S.E., Lacey, WA 98504-2682. This report is respectfully submitted showing the condition of the Agency as of June 30, 2000.

SCOPE OF EXAMINATION

This examination covers the period July 1, 1994 through June 30, 2000 and comprises a comprehensive review of the books and records of the Agency. The examination followed the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

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INSTRUCTIONS

The examiners reviewed the Agency's filed June 30, 2000 Financial Statement as part of the statutory examination. The review focused on determining if the Agency's Financial Statement was completed in accordance with the Annual Statement Instructions published by the NAIC and on determining if the Agency's accounts and records were prepared and maintained in accordance with Title 48 of the Revised Code of Washington and Title 284 of the Washington Administrative Code.

The following summarizes the exceptions noted while performing this review.

1. Fund Balance

The Agency is instructed to maintain the level of its Fund Balance above the target level set by the Premium Stabilization Reserve. (See Page 5, "Fund Balance")

COMMENTS AND RECOMMENDATIONS

There are no examination comments or recommendations.

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HISTORY

The Washington State Health Care Authority was established by the Washington State Health Care Reform Act of 1988 under RCW 41.05 (the Act). The Act authorizes the Agency to insure any type of loss under its jurisdiction except property and casualty risks. The Washington State Legislature recognized that the state is a major purchaser of health care services and the increasing costs of these services pose a great financial burden to the state. It is the state's policy, consistent with the best interests of the state, to provide comprehensive health care as an employer, to state employees and officials and their dependents and to those who are dependent on the state for necessary medical care.

Within the Agency, the Public Employees Benefits Board (PEBB) and the Basic Health Plan (BHP) operate to accomplish this goal. RCW 41.05.055 established the PEBB to design and approve insurance benefit plans for state employees and school district employees. The BHP provides the system of enrollment and payment on a prepaid capitated basis for basic health care services, administered by the Agency's administrator.

MANAGEMENT AND CONTROL

Under RCW 41.05.021, the Agency was created within the Executive Branch of Washington State. The Agency has an Administrator appointed by the Governor, with the consent of the Senate. The Administrator may employ up to seven exempt staff members and any additional staff members as are necessary to administer Chapter 41.05 RCW. The Administrator serving as of June 30, 2000 was Gary Christianson.

The following is a list of Deputy and Assistant Administrators as of June 30, 2000:

A. J. Bergeron	Deputy Administrator
Richard Whitten, MD	Medical Director
Barbara Bergener	Executive Director – Quality & Strategic Planning
Melodie Bankers	Executive Director – Contracts & Procurement
Bob Blacksmith	Executive Director – Community Health Services
Glenn Raiha	Assistant Administrator – Finance & Administration
Mary Anne Lindeblad	Assistant Administrator – Public Employees Benefits Board
Rebecca Loomis	Assistant Administrator – Basic Health
Ida Zodrow	Assistant Administrator – Uniform Medical Plan
Dave Wasser	Communications Manager
Kelly Gwin	Human Resource Manager
Tom Neitzel	Information Services Manager
Claudia Beyar	Audit Manager

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FUND BALANCE

The Washington State Health Care Authority's Fund Balance as of June 30th of each fiscal year under examination was as follows:

1995	\$40,240,320
1996	36,337,115
1997	42,184,562
1998	17,827,197
1999	14,359,652
2000	11,274,667

Premium Stabilization Reserve and Surplus

The Agency's internal policy is to divide the Fund Balance into two (2) separate funds, the Premium Stabilization Reserve (PSR) and surplus. The purpose of the PSR is to be the Agency's minimum reserve level. The target level for the PSR is equal to eight percent (8%) of annual incurred medical benefits and four percent (4%) of annual incurred dental benefits. The surplus is the remaining portion of the Fund Balance, exclusive from the PSR. While the surplus is affected by the HCA's efficiency in purchasing health care and the utilization trends for its self-insured plans, the primary driving factors which affect the use of the surplus are decisions made by the State Legislature for funding employer premium rates.

For example, the June 30, 1997 Fund Balance was separated into the PSR and surplus as such:

Fund Balance	\$42,184,562
Aggregate Incurred Medical Benefits	98,160,282
Aggregate Incurred Dental Benefits	53,907,613
Aggregate Incurred Medical Benefits X 8%	\$7,852,823
Aggregate Incurred Dental Benefits X 4%	<u>2,156,305</u>
Premium Stabilization Reserve	10,009,127
Surplus	<u>32,175,435</u>
Fund Balance	<u>\$42,184,562</u>

Retiree Litigation Settlement

During 1992, the retired public employees filed a class action suit (Retired State Employees et. al v. State of Washington – Thurston County Superior Court Case No. 92-2-01294-1) regarding the method used to calculate premiums paid by retired Medicare eligible participants to the Uniform Medical Plan (UMP). This class action suit contended that, upon its formation in 1988, the HCA used a methodology for calculating UMP Medicare retiree premiums that was inconsistent with legislation amended in 1977.

During the 1998 Fiscal Year, the retired public employees and the HCA reached a settlement. The State Legislature authorized the HCA to distribute directly to the members of the class

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action suit the amount of \$42.8 million. The Legislature appropriated \$25 million toward this settlement with direction that the HCA pay the remaining \$17.8 million from existing reserves. In addition, the Legislature increased the monthly premium amount that state agencies and higher education employers pay for active employees with the intent of repaying the reserve fund for the amount of the settlement over a five (5) year period. The Legislature recognized that payment of these claims may reduce the PSR below its target level on an interim basis. However, it was the Legislature's intent that the viability of HCA administered programs be preserved and that the benefit levels for HCA administered programs not be reduced in the event the PSR is used to pay such claims.

Effect of Legislative Mandate on Reserve Levels

The following chart shows the decrease in the Fund Balance as a result of the distribution of the class action suit settlement. By the end of Fiscal Year 2000, the Fund Balance has declined to a level below the minimum reserve level set by the PSR.

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Fund Balance	\$17,827,197	\$14,359,657	\$11,274,667
Aggr. Incurred Medical Benefits	123,958,475	131,307,597	167,006,590
Aggr. Incurred Dental Benefits	58,213,402	63,190,167	67,965,987
Aggr. Incurred Medical Benefits X 8%	\$9,916,678	\$10,504,608	\$13,360,527
Aggr. Incurred Dental Benefits X 4%	<u>2,328,536</u>	<u>2,527,607</u>	<u>2,718,639</u>
Premium Stabilization Reserve	12,245,214	13,032,214	16,079,167
Surplus	<u>5,581,983</u>	<u>1,327,443</u>	<u>-4,804,500</u>
Fund Balance	<u>\$17,827,197</u>	<u>\$14,359,657</u>	<u>\$11,274,667</u>

Subsequent Events

Upon discovery that the PSR was at risk of being exhausted in the 1999 – 2001 Biennium, the HCA requested and received in the 2000 supplemental budget an acceleration of the repayment of the settlement. As of March 31, 2001, the Fund Balance was fully funded, with the PSR at its target level and the surplus at a positive balance.

Fund Balance	\$31,077,074
Aggregate Incurred Medical Benefits (Annualized)	196,278,468
Aggregate Incurred Dental Benefits (Annualized)	70,616,007
Aggregate Incurred Medical Benefits X 8%	\$15,702,277
Aggregate Incurred Dental Benefits X 4%	<u>2,824,640</u>
Premium Stabilization Reserve	18,526,918
Surplus	<u>12,550,156</u>
Fund Balance	<u>\$31,077,074</u>

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INTERNAL SECURITY

Conflict of Interest

During the 1994 Legislative Session, Chapter 42.52 RCW – “Ethics in Public Service” was passed, replacing Chapter 42.18 RCW which was in effect during the previous examination. The new code establishes a single code of ethics that applies to all state officers and state employees in the executive, legislative and judicial branches of government. RCW 42.52.200(1) allows each agency to adopt rules consistent with law, for use within the agency to protect against violations of this chapter. During 1995, the HCA issued Administrative Policy No. 1-14 – “Code of Personal Conduct”, which addresses personal conduct of all employees of the agency. No material conflicts of interest were noted in our review.

Internal Audit Function

The HCA employs an internal auditor who reports directly to the Deputy Administrator - Strategic Planning, Audit & Community Outreach. The internal auditor’s functions are internal audits, external audits of administrative service contracts and internal policy development.

Electronic Data Processing

The HCA’s EDP system is administered by the Office of Fiscal Management - Human Resources Information Systems Division (HRISD). All responsibility for maintenance and update of the system resides with HRISD. The invoicing system records the receivables, payables expenses and accrued revenues and then automatically interfaces with the Automated Financial Reporting System (AFRS) which is the main accounting system for the State of Washington.

The security systems used to control access to user screens resides with the Department of Information Systems (DIS) and HRISD. DIS assigns the security logon and the user selects the password which allows access. HRISD assigns an individual to be Security Administrator for each agency. This individual is then responsible for delegating and maintaining the security level of the individuals within the Agency.

The Office of the State Auditor (SAO) conducted an audit of the Agency’s EDP systems for the Fiscal Year 2000. System compliance and controls were tested. The SAO audit report found the system compliance and controls to be in material compliance with the Office of Financial Management regulations. Several recommendations by SAO to improve the system controls were implemented as of the examination date. For purposes of our examination, we relied upon the SAO audit and issued report, with follow-up review to verify implementation of recommended improvements.

TERRITORY AND PLAN OF OPERATIONS

The HCA was established and is authorized to transact the business of providing medical and dental coverage in Washington State. The principle place of business is in Lacey, Washington. The Agency indemnifies and provides the Uniform Medical and Dental Plan to eligible State

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employees, retirees, political subdivisions and higher education facilities. In addition to the Self Insured Medical and Dental plans, the Agency administers numerous insurance options with several carriers. Certain carriers are organized to deliver or arrange for the delivery of health care services while other carriers provide term life, accidental death and dismemberment and long-term disability insurance.

GROWTH OF AGENCY

The growth of the Agency is reflected in the following schedule (in dollars), compiled from the Agency's Financial Statement:

Schedule 1

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Reserves</u>
1995	\$67,183,501	\$29,483,528	\$37,699,973
1996	59,285,647	22,948,532	36,337,115
1997	65,956,339	23,771,777	42,184,562
1998	88,646,049	70,818,852	17,827,197
1999	49,640,768	35,281,110	14,359,657
2000	60,511,842	49,237,175	11,274,667

Schedule 2

<u>Year</u>	<u>Revenue</u>	<u>Uniform Medical and Dental Claims</u>	<u>Carrier Payments</u>	<u>Administrative Expenses (1)</u>	<u>Income (Loss)</u>
1995	\$425,331,431	\$173,268,747	\$257,318,054	\$17,927,564	\$-23,182,934
1996	448,987,067	158,038,388	276,875,831	17,976,053	-3,903,205
1997	465,583,419	141,988,442	300,296,346	17,451,184	5,847,447
1998	484,699,828	153,725,754	320,224,824	36,106,614	-25,357,364
1999	556,916,729	182,733,264	357,591,646	20,059,359	-3,467,540
2000	638,594,739	222,242,147	398,143,751	21,653,831	-3,084,990

Legend:

- (1) Administrative Expenses includes medical and dental claims management, utilization review, preferred provider management, database management, agency administration and risk adjustments.

ACCOUNTING RECORDS AND PROCEDURES

The HCA's accounts and records are maintained on an accrual basis of accounting and are converted to Statutory Accounting Practices (SAP) basis for Annual Statement reporting purposes. The HCA is a subsystem of the Human Resources Information Systems Division system, which interfaces with the Automated Financial Reporting System. The Office of

Washington State Health Care Authority

Financial Management (OFM) is responsible for maintaining and designing the AFRS system. OFM prepares annual financial statements for the State of Washington in accordance with Generally Accepted Accounting Principles (GAAP). The financial activities of the Agency are included in OFM statements. The OFM statements are audited by the Office of the State Auditor.

The Financial Statements filed with the Washington Office of Insurance Commissioner during the examination period were examined and reviewed to verify that they were prepared in a manner consistent with the statutory requirements of Title 48 Revised Code of Washington, Title 284 Washington Administrative Code, the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners. No material deviations from these standards and procedures were noted.

SUBSEQUENT EVENTS

Gary L. Christianson, Administrator, retired, effective December 2000. Sue Crystal has been appointed Administrator, effective February 2001.

Glenn Raiha, Assistant Administrator - Finance & Administration resigned effective July 13, 2001. Susanne Ames has been appointed Acting Assistant Administrator – Finance & Administration while the agency recruits for the position.

Ida Zodrow has been appointed Administrator, effective September 21, 2001, after the death of Sue Crystal on August 25, 2001. Ms. Zodrow had been serving as Acting Administrator since March 2001.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The prior examination report, dated June 30, 1994 included three (3) Instructions and three (3) Recommendations. A review of the Financial Statements filed by the HCA during the examination period noted that appropriate corrective action had been taken and the Agency has complied with each of the Instructions and Recommendations from the prior examination.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of the Washington State Health Care Authority as of June 30, 2000:

- Statement of Assets, Liabilities and Fund Balance
- Statement of Revenue and Expense
- Analysis of Examination Changes in Financial Statements
- Comparative Statement of Assets, Liabilities and Fund Balance
- Comparative Statement of Revenue and Expense
- Six Year Reconciliation of Fund Balance

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**Statement of Assets, Liabilities and Fund Balance
As of June 30, 2000**

	<u>Balance</u> <u>Per Agency</u>	<u>Adj.</u> <u>No.</u>	<u>Examination</u> <u>Adjustments</u>	<u>Ref.</u>	<u>Balance Per</u> <u>Examination</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$17,398,340				\$17,398,340
Investments	32,199,683				32,199,683
Interest Receivable	266,340				266,340
Premiums Due	9,958,595				9,958,595
Other Receivables	688,884				688,884
Total Assets	<u>\$60,511,842</u>		<u>\$0</u>		<u>\$60,511,842</u>
<u>LIABILITIES</u>					
Accounts Payable – Administration	\$1,540,843				\$1,540,843
Accounts Payable - Benefits Providers	12,123,421				12,123,421
Accounts Payable – Deferred Revenue	306,548				306,548
Incurred But Not Reported Reserve	35,266,363				35,266,363
Total Liabilities	<u>49,237,175</u>				<u>49,237,175</u>
<u>FUND BALANCE</u>					
Fund Balance	11,274,667				11,274,667
Total Fund Balance	<u>11,274,667</u>				<u>11,274,667</u>
Total Liabilities and Fund Balance	<u>\$60,511,842</u>		<u>\$0</u>		<u>\$60,511,842</u>

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**Statement of Revenue and Expense
As of June 30, 2000**

	Balance Per Company	Adj. No.	Examination Adjustments	Ref.	Balance Per Examination
REVENUE					
Insurance Premiums - Self Insured Medical Benefits	\$179,010,652				\$179,010,652
Insurance Premiums - Self Insured Dental Benefits	66,652,902				66,652,902
Insurance Premiums - Other Insured Benefits	389,125,992				389,125,992
Interest and Miscellaneous Income	4,165,193				4,165,193
Total Revenue	638,954,739				638,954,739
EXPENSES					
Insured Benefits and Administration					
Life Premiums	2,929,008				2,929,008
LTD Premiums	3,345,531				3,345,531
HMO Premiums	381,288,826				381,288,826
Dental HMO Premiums	10,580,386				10,580,386
Total Insured Benefits and Administration	389,143,751				398,143,751
Self-Insured Medical Benefits and Administration					
Incurred Medical Claims	158,581,993				158,581,993
Medical Claims Management	7,491,981				7,491,981
Utilization Review	625,542				625,542
Preferred Provider Management	5,386				5,386
Data Base Management	276,950				276,950
Total Self-Insured Medical Benefits and Administration	167,006,590				167,006,590
Self-Insured Dental Benefits and Administration					
Incurred Dental Claims	63,660,154				63,660,154
Dental Claims Management	4,305,833				4,305,833
Total Self-Insured Dental Benefits and Administration	67,965,987				67,965,987
Risk Adjustment Administration Expenses	53,416				53,416
Agency Administration	8,869,985				8,869,985
Total Expenses	642,039,729				642,039,729
Excess (Deficit) of Current Year Revenues Over Expenses	\$-3,084,990			\$0	\$-3,084,990
STATEMENT OF FUND BALANCE					
Beginning of Fiscal Year Fund Balance	\$14,359,657				\$14,359,657
Contributed Capital					
Current Year Excess (Deficit)	-3,084,990				-3,084,990
End of Period Fund Balance	\$11,274,667			\$0	\$11,274,667

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**Analysis of Examination Changes in Financial Statements
As of June 30, 2000**

	Adj. <u>No.</u>	INCREASE/ <u>(DECREASE)</u>	
Fund Balance, per Agency			\$11,274,667
 <u>ASSETS</u> 			
 <u>LIABILITIES</u> 			
Net Increase/(Decrease) to Fund Balance			0
Fund Balance, per Examination			<u>\$11,274,667</u>

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**Comparative Statement of Assets, Liabilities and Fund Balance
As of June 30,**

	<u>2000*</u>	<u>1999</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$17,398,340	\$11,058,822
Investments	32,199,683	30,484,871
Interest Receivable	266,340	349,796
Premiums Due	9,958,595	7,287,494
Other Receivables	688,884	459,785
Total Assets	<u>\$60,511,842</u>	<u>\$49,640,768</u>
<u>LIABILITIES</u>		
Accounts Payable – Administration	\$1,540,843	\$1,752,311
Accounts Payable - Benefits Provider	12,123,421	9,402,161
Accounts Payable - Deferred Revenue	306,548	290,424
Incurred But Not Reported Reserve	35,266,363	23,836,215
Total Liabilities	<u>49,237,175</u>	<u>35,281,111</u>
<u>FUND BALANCE</u>		
Fund Balance	11,274,667	14,359,657
Total Fund Balance	<u>11,274,667</u>	<u>14,359,657</u>
Total Liabilities and Fund Balance	<u>\$60,511,842</u>	<u>\$49,640,768</u>

Legend:

* Balances per examination.

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**Comparative Statement of Revenue and Expense
For the Years Ended June 30,**

	<u>2000*</u>	<u>1999</u>
REVENUE		
Insurance Premiums - Self Insured Medical Benefits	\$179,010,652	\$118,831,412
Insurance Premiums - Self Insured Dental Benefits	66,652,902	56,458,363
Insurance Premiums - Other Insured Benefits	389,125,992	362,408,920
Interest and Miscellaneous Income	4,165,193	19,218,034
Total Revenue	<hr/> 638,954,739	<hr/> 556,916,729
EXPENSES		
Insured Benefits and Administration		
Life Premiums	2,929,008	1,969,449
LTD Premiums	3,345,008	3,248,349
HMO Premiums	381,288,826	343,568,655
Dental HMO Premiums	10,580,386	8,805,193
Total Insured Benefits and Administration	<hr/> 389,143,751	<hr/> 357,591,646
Self-Insured Medical Benefits and Administration		
Incurred Medical Claims	158,581,993	123,740,518
Medical Claims Management	7,491,981	6,717,162
Utilization Review	625,542	567,964
Preferred Provider Management	5,386	5,003
Data Base Management	276,950	276,950
Total Self-Insured Medical Benefits and Administration	<hr/> 167,006,590	<hr/> 131,307,597
Self-Insured Dental Benefits and Administration		
Incurred Dental Claims	63,660,154	58,992,746
Dental Claims Management	4,305,833	4,197,421
Total Self-Insured Dental Benefits and Administration	<hr/> 67,965,987	<hr/> 63,190,167
Risk Adjustment Administration Expenses	53,416	41,500
Agency Administration	8,869,985	8,253,359
Total Expenses	<hr/> 642,039,729	<hr/> 560,384,269
Excess (Deficit of Current Year Revenues Over Expenses)	<hr/> <u>\$-3,084,990</u>	<hr/> <u>\$-3,467,540</u>

Legend:

* Balances per examination.

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**Six Year Reconciliation of Fund Balance
As of June 30,**

	<u>2000*</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<u>FUND BALANCE</u>						
Beginning of Fiscal Year, June 30, Prior Year	\$14,359,657	\$17,827,197	\$42,184,562	\$36,337,115	\$40,240,320	\$63,423,253
<u>GAINS AND (LOSSES)</u>						
Current Year Excess (Deficit)	-3,084,990	-3,467,540	-25,357,364	5,847,447	-3,903,205	-23,182,933
Contributed Capital	0	0	1,000,000	0	0	0
Change in Fund Balance for the Year	-3,084,990	-3,467,540	-24,357,364	5,847,447	-3,903,205	-23,182,933
End of Period Fund Balance, June 30, Current Year	<u>\$11,274,667</u>	<u>\$14,359,657</u>	<u>\$17,827,197</u>	<u>\$42,184,562</u>	<u>\$36,337,115</u>	<u>\$40,240,320</u>

Legend:

* Balances per examination.

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NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation

The financial statements included herein have been prepared in accordance with accounting practices prescribed or permitted by the Washington Office of Insurance Commissioner. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules.

2. Cash and Cash Equivalents

Pursuant to RCW 43.84.080, wherever there is in any fund or cash balance in the State Treasury more than sufficient to meet the current expenditures properly payable therefrom, the State Treasurer may invest or reinvest such portion of such funds or balances as the State Treasurer deems expedient. The Office of the State Treasurer (OST) pools the Agency's funds with other State funds in various short term fixed asset investments. The Agency maintains its Fund Balance in cash and cash equivalents. As of June 30, 2000, the balance for cash and cash equivalents was \$17,398,340.

3. Investments

Investments are valued based on the NAIC's Valuation of Securities Manual and Chapter 48.12 of the Revised Code of Washington.

RCW 41.05.120 establishes the public employees' insurance account in the custody of the State Treasurer, to be used by the Agency for the deposit of contributions, reserves, dividends and refunds, and for the payment of premiums for employee insurance benefit contracts. The State Treasurer and the State Investment Board (SIB) may invest moneys in the public employees' insurance account. The SIB invested the Agency's reserves as of June 30, 2000 in the following fund:

	<u>Statement Value</u>
Provident Temp Fund B	\$32,199,683

The Provident Temp Fund B is a money market fund rated A by Moody's. The fund is 100% invested in United States Treasury securities.

4. Incurred But Not Reported

The State Employees Reserve Fund has been established to account for the State Employees Self-Insured Plans Incurred But Not Reported claim expenditures. The loss reserve is calculated by William M. Mercer, Inc., the Agency's consulting actuary, based on commonly accepted actuarial principles to determine a reasonable provision for outstanding liabilities. Included in this reserve is an estimate for claims administration expenses on claims reserved for.

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5. Fund Balance

The HCA maintains fund equity to protect against adverse fluctuations in the Agency's assets, claim experience or investment experience. The Agency's management has targeted its reserve at eight percent (8%) of annual Uniform Medical Plan expenditures plus four percent (4%) of annual Uniform Dental Plan expenditures. As of June 30, 2000, the reserve level was below this target level.

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ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the Administrator and employees of the Agency during the course of this examination.

In addition, acknowledgment is made of the participation in the work and preparation to this report by Keith D. Henderson, CPA; Lichiou Lee, Associate Actuary; all from the Washington Office of Insurance Commissioner.

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AFFIDAVIT

STATE OF WASHINGTON	}
	} ss
COUNTY OF THURSTON	}

John R. Jacobson, AFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the Washington State Health Care Authority was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

John R. Jacobson, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 18th day of January, 2002.

Notary Public in and for the
State of Washington.